



N A R U C
National Association of Regulatory Utility Commissioners

May 27, 2004

The Honorable Michael K. Powell, Chairman
The Honorable Kathleen Q. Abernathy, Commissioner
The Honorable Michael J. Copps, Commissioner
The Honorable Kevin J. Martin, Commissioner
The Honorable Jonathan S. Adelstein, Commissioner

Federal Communications Commission
445 12th Street, S.W. Portals II Building
Washington, D.C. 20544

RE: Ex Parte Letter filed in the proceeding captioned: *In the Matter of Federal-State Joint Conference on Accounting Issues; Docket No. 02-269, In the Matter of 2000 Biennial Regulator Review of Accounting Requirements and ARMIS Reporting Requirements for Incumbent Local Exchange Carriers; Docket No. 00-199, In the Matter of Jurisdictional Separations Reforms and Referral to the Federal-State Joint Board; Docket No. 80-286, and In the Matter of Local Competition and Broadband Reporting; Docket No. 99-301.*

Commissioners:

The State Commissioner members of the Federal-State Joint Conference on Accounting (State Members) respectfully urge the full Commission to act expeditiously on the record created in response to the December 23, 2003 FCC Notice of Proposed Rulemaking (NPRM) seeking comment on the Joint Conference's recommendations.¹

On October 9, 2003, the Federal-State Joint Conference on Accounting Issues submitted a report to the FCC detailing a series of proposed recommendations to the Commission's accounting and reporting rules. The report was the result of the Joint Conference's year-long study on the Commission's accounting rules and ongoing proceedings related to the Commission's accounting requirements. It marked a critical starting point for evaluating needed changes.

¹ *Federal-State Joint Conference on Accounting Issues*, Notice of Proposed Rulemaking, FCC 03-326 (rel. Dec. 23, 2003).

The undersigned State Members commend the Commission for releasing a rulemaking seeking comment on the Joint Conference recommendations. Concurrently with the release of that document, the FCC also released an Order extending on an interim basis from January 1, 2004 through June 30, 2004 the suspension of the implementation of four accounting and reporting requirement rule modifications² previously adopted by the Commission in the *Phase II Report and Order*³.

At the outset, State Members would like to commend Commissioners Martin and Capps for their commitment to resolving regulatory accounting issues. Under the leadership of Commissioner Martin, the Joint Conference worked expeditiously to generate a recommendation on the specific accounting rules addressed in the *Phase II Report and Order* and also has been encouraged to look more broadly at what needs to be done to assure the FCC's rules meet both the federal and state regulatory needs and high standards of an increasing competitive marketplace. Both Commissioners Martin and Capps brought experience and thoughtful approaches to dealing with these issues, and the process has benefited tremendously from their contributions and hard work. Thus far, we believe this cooperative forum has been very successful facilitating State and federal input on accounting issues and formalizing a dialogue on the broader issues related to accounting. In light of the accounting scandals that haunt the telecommunications industry and the economy as a whole, continued review and attention from both State and federal regulators to these issues is critical.

The October 9, 2004 report includes three categories of recommendations with respect to the Commission's accounting and reporting requirements. Specifically, the report recommends:

- (1) Maintaining existing and adding accounts and/or subaccounts to Part 32 requirements, and related Part 43 ARMIS requirements;
- (2) Modifying certain FCC affiliate transaction rules; and
- (3) Requiring reporting certain operating data in ARMIS and clarifying which entities are subject to the FCC's accounting and reporting requirements.

The State Members urge the Commission to adopt the Joint Conference recommendations. These are critical issues that should be decided now rather than being subjected to further delay. The recommended information will provide data necessary to enable States and the FCC to fulfill their respective regulatory mandates.

² The modifications included: (i) Consolidating Account 5230, Directory Revenues into Account 5200, Miscellaneous Revenue; (ii) Consolidating Accounts 6621 through 6623 into Account 6620, Services; (iii) Consolidating Accounts 6561 through 6565 into Account 6565, Depreciation and Amortization expenses; and (iv) Reporting "Loop Sheath Kilometers" data in Table II of ARMIS Report 43-07. *Federal-State Joint Conference on Accounting Issues*, Order, 17 FCC Rcd 23243 (2002), suspending implementation until July 1, 2003; and *Federal-State Joint Conference on Accounting Issues*, Order, 18 FCC Rcd 12636 (2003), further suspending implementation until January 1, 2004.

³ *2000 Biennial Regulatory Review – Comprehensive Review of the Accounting Requirements and ARMIS Reporting Requirements for Incumbent Local Exchange Carriers: Phase 2; Amendments to the Uniform System of Accounts for Interconnection; Jurisdictional Separations Reform and Referral to the Federal-State Joint Board; and Local Competition and Broadband Reporting*, CC Docket Nos. 00-199, 97-212, 80-286, 99-301, Report and Order and Further Notice of Proposed Rulemaking, 16 FCC Rcd 19911 (2001), *on recon.*, *2000 Biennial Regulatory Review – Comprehensive Review of the Accounting Requirements and ARMIS Reporting Requirements for Incumbent Local Exchange Carriers*, CC Docket No. 00-199, Order on Reconsideration, 17 FCC Rcd 4766 (2002).

Indeed, our State colleagues on the Federal-State Joint Board on Separations agree in their May 27, 2004 letter to the Commission that:

“... the [Separations] Joint Board's data-gathering process could be helped by the adoption of certain accounting measures proposed by the Joint Conference on Accounting in its "Recommendation By Joint Conference" filed October 9, 2003, in WC Docket No. 02-269. The Joint Conference recommended, among other things, the addition of certain accounts and subaccounts to the Commission's Part 32 rules. The Commission published the joint conference recommendations on December 23, 2003, and has received public comment on them, but has not yet acted on the recommendation. It appears the additional accounts and subaccounts will provide important information for the FCC and this Joint Board to consider, so we urge the Commission to act on the Joint Conference recommendation soon.”

Ten parties filed Comments and/or Reply Comments in response to the NPRM. The four accounting and reporting requirements have been suspended three times since the *Phase II Report and Order* was issued, and will become effective June 30, 2004 unless action on the Joint Conference's Recommendations is taken, or another order is issued further suspending implementation of these accounts.

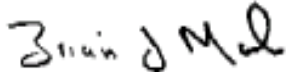
A Commission Order prior to June 30, 2004 is imperative to assure the accounting and reporting requirements are implemented in 2005.

All parties filing Comments and/or Reply Comments agree that any accounting and reporting modifications should be effective January 1, 2005.


Implementation of the Joint Conference recommendations set forth in the NPRM, effective January 1, 2005, is beneficial to carriers since it will allow them to report information in a consistent manner during the entire year. This consistency will assure that users of the information, including management, regulatory bodies, and auditors, can perform thorough reviews and comparisons of the information. Consistency of such information assists carriers in reporting calendar-year information, such as Annual Reports and Part 36 Separations studies, to the state and federal commissions.

State members look forward to continuing this process with our federal colleagues. We urge all five FCC commissioners to press for rapid action on the recommendation.

Sincerely,



The Honorable Brian Moline
Chairman
Kansas Corporation Commission
(Joint Conference State Chair)



The Honorable Diane Munns
Chairman
Iowa Utilities Board



The Honorable Terry Deason
Commissioner
Florida Public Service Commission



The Honorable Loretta Lynch
Commissioner
California Public Utilities Commission